

**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY AND EXHIBITS**  
**OF**  
**HENRY N. WEBSTER, II**  
**SEPTEMBER 30, 2013**



**DOCKET NO. 2013-199-WS**

**Application of United Utility Companies,  
Incorporated for Adjustment of Rates and  
Charges and Modifications of Certain Terms  
and Conditions for the Provision of Water  
and Sewer Service**

**DIRECT TESTIMONY OF HENRY N. WEBSTER, II**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO: 2013-199-WS**

**IN RE: APPLICATION OF UNITED UTILITY COMPANIES, INCORPORATED  
FOR ADJUSTMENT OF RATES AND CHARGES AND MODIFICATIONS OF  
CERTAIN TERMS AND CONDITIONS FOR THE PROVISION OF WATER AND  
SEWER SERVICE**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND  
OCCUPATION.**

**A.** My name is Henry N. Webster, II. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as Audit Manager for New Nuclear Deployment and Telecom.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND  
EXPERIENCE.**

**A.** I earned a Bachelor of Science degree with a major in Accounting and minor in English from Bob Jones University in May of 1983. I am a Certified Public Accountant licensed to practice in South Carolina. I began my career with the public accounting firm of Arthur Andersen & Co. (now Arthur Andersen LLP) in June of 1983, performing audits of various regulated entities. My subsequent professional work experience also includes local public accounting,

1        internal audit, various controller and financial management roles, and regulatory  
2        audit. I began my employment with ORS in January of 2008, where I have been  
3        performing regulatory reviews of utility companies, focused primarily upon rate  
4        cases (electric and water), new nuclear deployment, and telecommunications. I  
5        have testified before this Commission in three previous cases.

6        **WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
7        **PROCEEDING?**

8        A.        The purpose of my testimony is to set forth my findings and  
9        recommendations resulting from ORS's examination of the application of United  
10       Utility Companies, Inc. ("UUCI" or "Company") in this docket. The Application  
11       was filed on June 28, 2013.

12       **Q.       PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE**  
13       **EXAMINATION OF UUCI'S APPLICATION.**

14       A.        ORS's examination of UUCI's application consisted of three major steps.  
15       In step one, ORS verified that the operating experience and rate base, reported by  
16       the Company in its application, were supported by the Company's accounting  
17       books and records for the test year. In the second step, ORS tested the underlying  
18       transactions in the books and records for the same period to ensure that the  
19       transactions were adequately supported, had a stated business purpose, were  
20       allowable for ratemaking purposes, and were properly recorded. Lastly, our  
21       examination consisted of adjusting, as necessary, the revenues, expenditures, and  
22       capital investments to normalize the Company's operating experience and rate

base in accordance with generally accepted regulatory principles and Public Service Commission of South Carolina ("Commission" or "PSC") orders.

**Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.**

**A.** I have attached the following exhibits to my testimony relating to UUCI's application:

- Audit Exhibit HNW-1: Operating Experience, Rate Base, and Rates of Return for Combined Operations
- Audit Exhibit HNW-2: Operating Experience, Rate Base, and Rates of Return for Water Operations
- Audit Exhibit HNW-3: Operating Experience, Rate Base, and Rates of Return for Wastewater Operations
- Audit Exhibit HNW-4: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit HNW-5: Depreciation and Amortization Expense Adjustments
- Audit Exhibit HNW-6: Computation of Income Taxes
- Audit Exhibit HNW-7: Cash Working Capital Allowance
- Audit Exhibit HNW-8: Return on Equity

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for water and wastewater utility rate cases. These exhibits show various aspects of UUCI's operations and financial position.

1     **Q.     PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT HNW-1 AND**  
2     **ELABORATE ON THE CALCULATIONS.**

3     **A.**             Audit Exhibit HNW-1 shows UUCI's operating experience, rate base, and  
4             rates of return for water and wastewater operations for the test year ended  
5             December 31, 2012. The exhibit's format is designed to reflect the Application per  
6             books and ORS's proposed accounting and pro forma adjustments necessary to  
7             normalize the results of the UUCI's test year operations.

8             Column (1) shows the Application per books calculated by UUCI for the test year  
9             ended December 31, 2012.

10            Column (2) shows ORS's proposed accounting and pro forma adjustments designed  
11            to normalize the Application per books. An explanation of each adjustment is  
12            contained in Audit Exhibit HNW-4.

13            Column (3) shows ORS's result of a normalized test year for UUCI by adding  
14            columns (1) and (2). After the accounting and pro forma adjustments, Net Income  
15            for Return of \$130,500 was computed using Total Operating Revenues of  
16            \$1,011,930, less Total Operating Expenses of \$900,407, plus Customer Growth of  
17            \$18,977. Total Rate Base amounted to \$3,006,342, producing a Return on Rate  
18            Base of 4.34%. As shown on Audit Exhibit HNW-8, the resulting Return on Equity  
19            was 1.87%.

20            Column (4) shows Company's proposed revenue increase recalculated by ORS, and  
21            the calculation of taxes and customer growth associated with the proposed increase.

22            An explanation of each adjustment is contained in Audit Exhibit HNW-4.

Column (5) shows the effect of the Company's proposed rate increase by adding columns (3) and (4). Net Income for Return of \$565,727 was computed using Total Operating Revenues of \$1,580,818, less Total Operating Expenses of \$1,093,219, plus customer growth of \$78,128. Total Rate Base amounted to \$3,006,342 producing a Return on Rate Base of 18.82%. As shown on Audit Exhibit HNW-8, the resulting return on equity was 32.31%.

**Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT HNW-4.**

**A.** For comparative purposes, ORS and the Company's adjustments are both presented in Audit Exhibit HNW-4.

Adjustment 1 – The ORS Water and Wastewater Department proposes to annualize water and wastewater service revenues for the test year. Details of the adjustments, totaling \$134,995, are discussed in the direct testimony of ORS Water and Wastewater witness, Dawn M. Hipp.

Adjustment 2 – The ORS Water and Wastewater Department proposes to adjust miscellaneous revenues for the test year. Details of the adjustment for \$920 are discussed in the direct testimony of ORS Water and Wastewater witness, Dawn M. Hipp.

Adjustment 3 – ORS proposes to adjust uncollectible accounts associated with the Company's revenues after ORS's proposed accounting and pro forma adjustments. The adjustment of (\$1,881) was provided by ORS Water and Wastewater witness, Dawn M. Hipp, and is discussed in her direct testimony.

Adjustment 4 – ORS proposes to adjust operators' salaries by annualizing salaries as of May 2013. Each operator's total salary is allocated to UUCI based on its

percentage of Equivalent Residential Connections (“ERC”). The ERC percentage is calculated by dividing the number of customers served by UUCI by the total number of customers served by all subsidiaries to which the employee is assigned. ORS computed annualized salaries of \$170,192, less per book salaries of \$151,112, for an adjustment of \$19,080.

Adjustment 5 – ORS agrees with the Company’s adjustment to update purchase power costs for \$2.

Adjustment 6 – ORS proposes to remove (\$79) for purchased water and sewer expenses not associated with UUCI.

Adjustment 7 – ORS proposes a net increase to maintenance and repair expenses of \$27,177, reflecting an increase in expenditures of \$36,359 that had been incorrectly capitalized, with an offsetting decrease of (\$9,182) for expenses that had been improperly allocated. The Company capitalized several items it should have expensed, and also booked some costs to UUCI that should have been borne by other Utilities, Inc. affiliates located in South Carolina.

Adjustment 8 – ORS proposes to remove undocumented expenses of (\$930) for chemical expenses found during its review of accounts.

Adjustment 9 – ORS proposes to adjust for allocated transportation expenses, including fuel and auto repairs. Transportation expense per vehicle is calculated by taking the total transportation expense for Utilities, Inc. and dividing by the number of vehicles in the Utilities, Inc. fleet. The total transportation expense per vehicle (\$5,893) is then allocated to UUCI based on the employee that operates the vehicle and the time they spend working at UUCI. ORS computed total transportation

1        expense of \$23,312 for UUCI, less the per book amount of \$11,229 for an  
2        adjustment of \$12,083.

3        Adjustment 10 – ORS proposes to adjust operating expense charged to plant for  
4        time spent on capital projects and rate cases. Capitalized time reflects operators’  
5        and office employees’ salaries, taxes & benefits. ORS made the adjustment using  
6        the capitalized time report for the most recent period September 1, 2012 through  
7        August 31, 2013. ORS calculated operating expenses charged to plant of  
8        (\$72,235), less per book amount of (\$37,998), for an adjustment of (\$34,237).

9        Adjustment 11 – ORS proposes to adjust office salaries by annualizing salaries as  
10       of May 2013. Each office employee’s total salary was allocated to UUCI based  
11       on its percentage of ERCs. ORS computed annualized salaries of \$58,471, less  
12       per book salaries of \$29,001, for an adjustment of \$29,470.

13       Adjustment 12 – ORS proposes to remove non-allowable amounts for DHEC  
14       fines, contributions, advertising, and holiday events from office supplies and other  
15       office expenses of (\$26,706).

16       Adjustment 13 – ORS proposes to amortize rate case expenses incurred for the  
17       current rate case proceeding and include unamortized expenses from the prior rate  
18       case. ORS verified documented rate case expenses of \$45,485 as of August 26,  
19       2013. Current rate case expenses were amortized over a five-year period for a test  
20       year amount of \$9,097. ORS verified unamortized, prior-rate case expenses of  
21       \$75,870 to be amortized over five (5) years of \$15,174, resulting in the total test  
22       year amount for rate case expenses of \$24,271, less the per book amount of  
23       \$41,241, for an adjustment of (\$16,970).



1        Adjustment 14 – ORS proposes to annualize pension and other benefits associated  
2        with the salary adjustment for operators and office employees. ORS removed  
3        non-allowable benefits that were included in the per book amounts. Total ORS  
4        computed pension and other benefits was \$44,632, less the per book amount of  
5        \$17,886, resulting in an adjustment of \$26,746.

6        Adjustment 15 – Based on the recommendations of the ORS Water and  
7        Wastewater Department, ORS proposes that the Company's Leak Mitigation  
8        Program be denied. Further explanation of ORS's position regarding the  
9        Company's proposed Leak Mitigation Program is provided in the direct testimony  
10       of ORS Water and Wastewater witness, Dawn M. Hipp. ORS proposes to remove  
11       (\$82) of miscellaneous expenses for travel and entertainment.

12       Adjustment 16 – ORS proposes to decrease Operations and Maintenance  
13       ("O&M") expenses for items considered non-allowable for ratemaking purposes  
14       which were included in various General Expense accounts. These expenses  
15       include undocumented and other miscellaneous items. ORS considers these items  
16       non-allowable as they are not necessary to provide utility service. Additionally,  
17       during our review of non-allowable expenses, ORS did not find any contributions  
18       made to political campaigns. ORS proposes to remove non-allowable expenses of  
19       (\$8,016.)

20       Adjustment 17 – ORS proposes to annualize depreciation expense and adjust for  
21       net plant additions, vehicles, computers, capital improvements, non-allowable  
22       plant, capitalized time, and retirements. The details of the depreciation expense  
23       adjustment are shown in Audit Exhibit HNW-5. The depreciation rates were

recommended by ORS Water and Wastewater Department. ORS's total depreciation expense amounted to \$110,419, less the per book amount of \$110,329, for a total adjustment of \$90.

Adjustment 18 - ORS proposes to adjust the amortization of Contributions In Aid of Construction ("CIAC"). ORS used the gross per book CIAC amount of (\$2,716,360) at 1.50%, for an amortization amount of (\$40,745), less the per book amount of (\$40,649), for an adjustment of (\$96). See Audit Exhibit HNW-5.

Adjustment 19 - ORS proposes to adjust payroll taxes associated with the adjusted test year salaries. The payroll taxes include Social Security, Medicare and unemployment taxes. ORS updated all taxes to reflect the most recent rates. ORS computed taxes of \$20,541, less the per book amount of \$7,040, resulting in an Adjustment of \$13,501.

Adjustment 20 - ORS proposes to adjust gross receipts and utility/commission taxes. A total factor of .00963081, composed of the SC Department of Revenue factor of .003 and the PSC/ORS factor of .00663081, was used to compute this adjustment. ORS proposes to increase gross receipts taxes by \$4,813.

Adjustment 21 - ORS proposes to adjust income taxes after accounting and pro forma adjustments. ORS used a 5% rate for state income taxes and a rate of 35% for federal income taxes. Details of the computation of income taxes are shown in HNW-6.

Adjustment 22 - ORS proposes to remove the interest during construction of \$6 from the per book amount for ratemaking purposes.

1        Adjustment 23 – ORS proposes to adjust customer growth after the accounting and  
2        pro forma adjustments. The growth factor of 16.70047% for wastewater was  
3        provided by the ORS Water and Wastewater Department. There was no customer  
4        growth for water operations.

5        Adjustment 24 – ORS proposes to increase gross plant in service for adjusted  
6        vehicle costs of \$40,734 as of December 31, 2012, reflecting a reduction in the  
7        Company's request due to one vehicle being over-allocated to UUCI. ORS  
8        further proposes to remove (\$210,500) from plant in service associated with  
9        computers, capital improvements, non-allowable plant, capitalized time, and  
10       retirements. This reduction results from the removal of expenses improperly  
11       capitalized in earlier years, and expenditures determined by the ORS  
12       Water/Wastewater Department to be unrelated to UUCI. Additionally, ORS  
13       recomputed capitalized time, and updated retirements accordingly. The total net  
14       adjustment amounts to (\$169,766).

15       Adjustment 25 – ORS proposes to adjust gross plant in service for general ledger  
16       additions of \$109,649 as of August 19, 2013. ORS reviewed the support for the  
17       proposed plant, and included only costs that were known and measurable, and  
18       providing service to present customers.

19       Adjustment 26 – ORS proposes to adjust accumulated depreciation to reflect  
20       gross plant in service, as well as, depreciation associated with pro forma general  
21       ledger additions, vehicles, computers, capital improvements, non-allowable plant,  
22       capitalized time, and retirements. The total adjustment amounts to \$38,786.

1        Adjustment 27 – ORS proposes to adjust cash working capital after accounting  
2        and pro forma adjustments. Details of this adjustment are included in Audit  
3        Exhibit HNW-7.

4        Adjustment 28 – ORS proposes to adjust CIAC by \$96 to reflect the amortization  
5        of CIAC expense, as a result of ORS Adjustment 18.

6        Adjustment 29 – ORS proposes to adjust allowable interest expense to reflect the  
7        rate base after accounting and pro forma adjustments, using the capitalization  
8        ratio of 52.44% for debt and 47.56% for equity, with a cost of debt of 6.58%.  
9        ORS computed an adjustment of (\$25,066), resulting in allowable interest  
10       expense of \$103,735. See Audit Exhibit HNW-8 for ORS's computation of  
11       interest expense. Details of the capital structure can be found in the testimony of  
12       ORS witness, Dr. Douglas H. Carlisle.

13       Adjustment 30 – Based upon ORS Water and Wastewater Department  
14       calculations, UUCI's proposed rates would produce additional revenues of \$27,481  
15       for Water Operations and \$527,635 for Wastewater Operations. Details of these  
16       adjustments are shown in the direct testimony of ORS Water and Wastewater  
17       witness, Dawn M. Hipp.

18       Adjustment 31 – ORS proposes to adjust miscellaneous revenue for the  
19       Company's proposed rate increase. Details of the adjustment for \$21,755 are  
20       shown in the direct testimony of ORS Water and Wastewater witness, Dawn M.  
21       Hipp.

1        Adjustment 32– ORS proposes to adjust uncollectible accounts for the Company's  
2        proposed rate increase. The uncollectible accounts adjustment of (\$7,983) was  
3        provided by ORS Water and Wastewater witness, Dawn M. Hipp.

4        Adjustment 33 – Based on the recommendations of the ORS Water and  
5        Wastewater Department, ORS proposes that the Company's Leak Mitigation  
6        Program be denied. Further explanation of ORS's position regarding United  
7        Utility's proposed Leak Mitigation Program is provided in the direct testimony of  
8        ORS Water and Wastewater witness, Dawn M. Hipp.

9        Adjustment 34 – ORS proposes to adjust gross receipts and utility/commission  
10       taxes for the Company's proposed rate increase. A total factor of .00963081,  
11       composed of the SC Department of Revenue factor of .003 and the PSC/ORS factor  
12       of .00663081, was used to compute this adjustment. ORS proposes to increase  
13       gross receipts taxes by \$5,479.

14       Adjustment 35 – ORS proposes to adjust income taxes for the Company's  
15       proposed rate increase. See Audit Exhibit HNW-6 for the computation of income  
16       taxes.

17       Adjustment 36 – ORS proposes to adjust customer growth for the proposed  
18       increase. The growth factor of 16.70047% for wastewater was provided by the  
19       ORS Water and Wastewater Department. There was no customer growth for water  
20       operations.

21    **Q.     PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

22    **A.**        Audit Exhibit HNW-5 shows the computation of ORS depreciation and  
23        amortization expense adjustments. Audit Exhibit HNW-6 shows the computation

1            of income taxes. Audit Exhibit HNW-7 shows the calculation of the cash  
2            working capital allowance. Audit Exhibit HNW-8 shows the calculation of return  
3            on equity.

4    **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

5    **A.    Yes.**

**United Utility Companies, Inc.**  
**Docket No. 2013-199-WS**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended December 31, 2012**  
**Combined Operations**

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<b><u>Operating Revenues:</u></b>					
Service Revenues - Water	65,069	54 (A)	65,123	27,481 (AA)	92,604
Service Revenues - Sewer	801,142	134,941 (A)	936,083	527,635 (AA)	1,463,718
Miscellaneous Revenues	24,004	920 (B)	24,924	21,755 (BB)	46,679
Uncollectible Accounts	(12,319)	(1,881) (C)	(14,200)	(7,983) (CC)	(22,183)
<b><u>Total Operating Revenues</u></b>	<b>877,896</b>	<b>134,034</b>	<b>1,011,930</b>	<b>568,888</b>	<b>1,580,818</b>
<b><u>Maintenance Expenses:</u></b>					
Salaries and Wages	151,112	19,080 (D)	170,192	0	170,192
Purchased Power	102,030	2 (E)	102,032	0	102,032
Purchased Sewer & Water	13,279	(79) (F)	13,200	0	13,200
Maintenance and Repair	132,697	27,177 (G)	159,874	0	159,874
Maintenance Testing	63,087	0	63,087	0	63,087
Meter Reading	641	0	641	0	641
Chemicals	53,512	(930) (H)	52,582	0	52,582
Transportation	11,228	12,083 (I)	23,311	0	23,311
Operating exp. Charged to Plant	(37,998)	(34,237) (J)	(72,235)	0	(72,235)
<b>Total</b>	<b>489,588</b>	<b>23,096</b>	<b>512,684</b>	<b>0</b>	<b>512,684</b>
<b><u>General Expenses:</u></b>					
Salaries and Wages	29,001	29,470 (K)	58,471	0	58,471
Office Supplies & Other Office Exp.	35,584	(26,706) (L)	8,878	0	8,878
Regulatory Commission Exp.	41,242	(16,970) (M)	24,272	0	24,272
Pension & Other Benefits	17,887	26,746 (N)	44,633	0	44,633
Rent	107	0	107	0	107
Insurance	9,298	0	9,298	0	9,298
Office Utilities	25,519	0	25,519	0	25,519
Outside Services - Other	6,174	0	6,174	0	6,174
Miscellaneous	(56)	(8,098) (O)	(8,154)	0 (DD)	(8,154)
<b>Total</b>	<b>164,756</b>	<b>4,442</b>	<b>169,198</b>	<b>0</b>	<b>169,198</b>
Depreciation	110,329	90 (P)	110,419	0	110,419
Amortization of CIAC	(40,651)	(96) (Q)	(40,747)	0	(40,747)
Taxes Other Than Income	125,715	18,314 (R)	144,029	5,479 (EE)	149,508
Income Taxes - State & Fed	(22,309)	27,133 (S)	4,824	187,333 (FF)	192,157
<b>Total</b>	<b>173,084</b>	<b>45,441</b>	<b>218,525</b>	<b>192,812</b>	<b>411,337</b>
<b><u>Total Operating Expenses</u></b>	<b>827,428</b>	<b>72,979</b>	<b>900,407</b>	<b>192,812</b>	<b>1,093,219</b>
<b><u>Total Operating Income</u></b>	<b>50,468</b>	<b>61,055</b>	<b>111,523</b>	<b>376,076</b>	<b>487,599</b>
Interest During Construction	(6)	6 (T)	0	0	0
Customer Growth	0	18,977 (U)	18,977	59,151 (GG)	78,128
<b><u>Net Income for Return</u></b>	<b>50,462</b>	<b>80,038</b>	<b>130,500</b>	<b>435,227</b>	<b>565,727</b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	6,210,153	(60,117) (V)	6,150,036	0	6,150,036
Accumulated Depreciation	(622,027)	38,786 (W)	(583,241)	0	(583,241)
Net Plant in Service	5,588,126	(21,331)	5,566,795	0	5,566,795
Cash Working Capital	81,793	3,443 (X)	85,236	0	85,236
Contributions in Aid of Construction	(2,133,929)	96 (Y)	(2,133,833)	0	(2,133,833)
Accumulated Deferred Income Taxes	(484,459)	0	(484,459)	0	(484,459)
Customer Deposits	(27,397)	0	(27,397)	0	(27,397)
<b>Total Rate Base</b>	<b>3,024,134</b>	<b>(17,792)</b>	<b>3,006,342</b>	<b>0</b>	<b>3,006,342</b>
<b><u>Return on Rate Base</u></b>	<b>1.67%</b>		<b>4.34%</b>		<b>18.82%</b>
<b><u>Operating Margin</u></b>	<b>-8.92%</b>		<b>2.64%</b>		<b>29.22%</b>
<b><u>Interest Expense</u></b>	<b>128,801</b>	<b>(25,066) (Z)</b>	<b>103,735</b>		<b>103,735</b>

United Utility Companies, Inc.  
Docket No. 2013-199-WS  
Operating Experience, Rate Base and Rates of Return  
For the Test Year Ended December 31, 2012  
Water Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(6) After Applicant's Proposed Increase \$
<b>Operating Revenues:</b>					
Service Revenues - Water	65,069	54 (A)	65,123	27,481 (AA)	92,604
Miscellaneous Revenues	2,196	(1,188) (B)	1,008	6,028 (BB)	7,036
Uncollectible Accounts	(1,127)	203 (C)	(924)	(396) (CC)	(1,320)
<b>Total Operating Revenues</b>	<b>66,138</b>	<b>(931)</b>	<b>65,207</b>	<b>33,113</b>	<b>98,320</b>
<b>Maintenance Expenses:</b>					
Salaries and Wages	13,827	1,746 (D)	15,573	0	15,573
Purchased Power	4,711	91 (E)	4,802	0	4,802
Purchased Water	0	0 (F)	0	0	0
Maintenance and Repair	10,265	(5,440) (G)	4,825	0	4,825
Maintenance Testing	13,605	0	13,605	0	13,605
Meter Reading	59	0	59	0	59
Chemicals	4,896	(85) (H)	4,811	0	4,811
Transportation	1,027	1,018 (I)	2,045	0	2,045
Operating exp. Charged to Plant	(3,477)	(3,133) (J)	(6,610)	0	(6,610)
<b>Total</b>	<b>44,913</b>	<b>(5,803)</b>	<b>39,110</b>	<b>0</b>	<b>39,110</b>
<b>General Expenses:</b>					
Salaries and Wages	2,654	2,697 (K)	5,351	0	5,351
Office Supplies & Other Office Exp.	1,353	(225) (L)	1,128	0	1,128
Regulatory Commission Exp.	3,774	(1,553) (M)	2,221	0	2,221
Pension & Other Benefits	1,637	2,447 (N)	4,084	0	4,084
Rent	10	0	10	0	10
Insurance	851	0	851	0	851
Office Utilities	2,335	0	2,335	0	2,335
Outside Services - Other	565	0	565	0	565
Miscellaneous	(6)	(740) (O)	(746)	0 (DD)	(746)
<b>Total</b>	<b>13,173</b>	<b>2,626</b>	<b>15,799</b>	<b>0</b>	<b>15,799</b>
Depreciation	9,413	604 (P)	10,017	0	10,017
Amortization of CIAC	(4,216)	0 (Q)	(4,216)	0	(4,216)
Taxes Other Than Income	11,503	1,412 (R)	12,915	319 (EE)	13,234
Income Taxes - State & Fed	(2,041)	(4,269) (S)	(6,310)	10,904 (FF)	4,594
<b>Total</b>	<b>14,659</b>	<b>(2,253)</b>	<b>12,406</b>	<b>11,223</b>	<b>23,629</b>
<b>Total Operating Expenses</b>	<b>72,745</b>	<b>(5,430)</b>	<b>67,315</b>	<b>11,223</b>	<b>78,538</b>
<b>Total Operating Income</b>	<b>(6,607)</b>	<b>4,499</b>	<b>(2,108)</b>	<b>21,890</b>	<b>19,782</b>
Interest During Construction	(1)	1 (T)	0	0	0
Customer Growth	0	0 (U)	0	0 (GG)	0
<b>Net Income for Return</b>	<b>(6,608)</b>	<b>4,500</b>	<b>(2,108)</b>	<b>21,890</b>	<b>19,782</b>
<b>Original Cost Rate Base:</b>					
Gross Plant in Service	535,763	27,182 (V)	562,945	0	562,945
Accumulated Depreciation	(78,578)	2,510 (W)	(76,068)	0	(76,068)
Net Plant in Service	457,185	29,692	486,877	0	486,877
Cash Working Capital	7,261	(397) (X)	6,864	0	6,864
Contributions in Aid of Construction	(212,772)	0 (Y)	(212,772)	0	(212,772)
Accumulated Deferred Income Taxes	(44,328)	0	(44,328)	0	(44,328)
Customer Deposits	(2,507)	0	(2,507)	0	(2,507)
<b>Total Rate Base</b>	<b>204,839</b>	<b>29,295</b>	<b>234,134</b>	<b>0</b>	<b>234,134</b>
<b>Return on Rate Base</b>	<b>-3.23%</b>		<b>-0.90%</b>		<b>8.45%</b>
<b>Operating Margin</b>	<b>-27.81%</b>		<b>-15.62%</b>		<b>11.90%</b>
<b>Interest Expense</b>	<b>11,785</b>	<b>(3,706) (Z)</b>	<b>8,079</b>		<b>8,079</b>



**United Utility Companies, Inc.**  
**Docket No. 2013-199-WS**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended December 31, 2012**  
**Sewer Operations**

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(6) After Applicant's Proposed Increase \$
<b><u>Operating Revenues:</u></b>					
Service Revenues - Sewer	801,142	134,941 (A)	936,083	527,635 (AA)	1,463,718
Miscellaneous Revenues	21,808	2,108 (B)	23,916	15,727 (BB)	39,643
Uncollectible Accounts	(11,192)	(2,084) (C)	(13,276)	(7,587) (CC)	(20,863)
<b><u>Total Operating Revenues</u></b>	<b><u>811,758</u></b>	<b><u>134,965</u></b>	<b><u>946,723</u></b>	<b><u>535,775</u></b>	<b><u>1,482,498</u></b>
<b><u>Maintenance Expenses:</u></b>					
Salaries and Wages	137,285	17,334 (D)	154,619	0	154,619
Purchased Power	97,319	(89) (E)	97,230	0	97,230
Purchased Sewer	13,279	(79) (F)	13,200	0	13,200
Maintenance and Repair	122,432	32,617 (G)	155,049	0	155,049
Maintenance Testing	49,482	0	49,482	0	49,482
Meter Reading	582	0	582	0	582
Chemicals	48,616	(845) (H)	47,771	0	47,771
Transportation	10,201	11,065 (I)	21,266	0	21,266
Operating exp. Charged to Plant	(34,521)	(31,104) (J)	(65,625)	0	(65,625)
<b>Total</b>	<b><u>444,675</u></b>	<b><u>28,899</u></b>	<b><u>473,574</u></b>	<b><u>0</u></b>	<b><u>473,574</u></b>
<b><u>General Expenses:</u></b>					
Salaries and Wages	26,347	26,773 (K)	53,120	0	53,120
Office Supplies & Other Office Exp.	34,231	(26,481) (L)	7,750	0	7,750
Regulatory Commission Exp.	37,468	(15,417) (M)	22,051	0	22,051
Pension & Other Benefits	16,250	24,299 (N)	40,549	0	40,549
Rent	97	0	97	0	97
Insurance	8,447	0	8,447	0	8,447
Office Utilities	23,184	0	23,184	0	23,184
Outside Services - Other	5,609	0	5,609	0	5,609
Miscellaneous	(49)	(7,358) (O)	(7,407)	0 (DD)	(7,407)
<b>Total</b>	<b><u>151,584</u></b>	<b><u>1,816</u></b>	<b><u>153,400</u></b>	<b><u>0</u></b>	<b><u>153,400</u></b>
Depreciation	100,916	(514) (P)	100,402	0	100,402
Amortization of CIAC	(36,435)	(96) (Q)	(36,531)	0	(36,531)
Taxes Other Than Income	114,212	16,902 (R)	131,114	5,160 (EE)	136,274
Income Taxes - State & Fed	(20,268)	31,402 (S)	11,134	176,429 (FF)	187,563
<b>Total</b>	<b><u>158,425</u></b>	<b><u>47,694</u></b>	<b><u>206,119</u></b>	<b><u>181,589</u></b>	<b><u>387,708</u></b>
<b><u>Total Operating Expenses</u></b>	<b><u>754,684</u></b>	<b><u>78,409</u></b>	<b><u>833,093</u></b>	<b><u>181,589</u></b>	<b><u>1,014,682</u></b>
<b><u>Total Operating Income</u></b>	<b><u>57,074</u></b>	<b><u>56,556</u></b>	<b><u>113,630</u></b>	<b><u>354,186</u></b>	<b><u>467,816</u></b>
Interest During Construction	(5)	5 (T)	0	0	0
Customer Growth	0	18,977 (U)	18,977	59,151 (GG)	78,128
<b><u>Net Income for Return</u></b>	<b><u>57,069</u></b>	<b><u>75,538</u></b>	<b><u>132,607</u></b>	<b><u>413,337</u></b>	<b><u>545,944</u></b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	5,674,390	(87,299) (V)	5,587,091	0	5,587,091
Accumulated Depreciation	(543,449)	36,276 (W)	(507,173)	0	(507,173)
Net Plant in Service	5,130,941	(51,023)	5,079,918	0	5,079,918
Cash Working Capital	74,532	3,840 (X)	78,372	0	78,372
Contributions in Aid of Construction	(1,921,157)	96 (Y)	(1,921,061)	0	(1,921,061)
Accumulated Deferred Income Taxes	(440,131)	0	(440,131)	0	(440,131)
Customer Deposits	(24,890)	0	(24,890)	0	(24,890)
<b><u>Total Rate Base</u></b>	<b><u>2,819,295</u></b>	<b><u>(47,087)</u></b>	<b><u>2,772,208</u></b>	<b><u>0</u></b>	<b><u>2,772,208</u></b>
<b><u>Return on Rate Base</u></b>	<b><u>2.02%</u></b>		<b><u>4.78%</u></b>		<b><u>19.69%</u></b>
<b><u>Operating Margin</u></b>	<b><u>-7.38%</u></b>		<b><u>3.90%</u></b>		<b><u>30.37%</u></b>
<b><u>Interest Expense</u></b>	<b><u>117,016</u></b>	<b><u>(21,360) (Z)</u></b>	<b><u>95,656</u></b>		<b><u>95,656</u></b>

United Utility Companies, Inc.  
Docket No. 2013-199-WS  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended December 31, 2012

Audit Exhibit HN-4  
1 of 7

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b><u>Accounting and Pro forma Adjustments</u></b>			
<b><u>Operating Revenues</u></b>			
<b>(A) Service Revenues</b>			
1 To adjust service revenues to reflect test year customer billings.			
Per ORS	134,995	54	134,941
Per UUCI	523	1,255	(732)
<b>(B) Miscellaneous Revenues</b>			
2 To adjust miscellaneous revenues to reflect increase in late payment and notification fees and other revenues.			
Per ORS	920	(1,188)	2,108
Per UUCI	0	0	0
<b>(C) Uncollectible Accounts</b>			
3 To adjust uncollectible accounts to reflect accounting and pro forma adjustments to service revenues.			
Per ORS	(1,881)	203	(2,084)
Per UUCI	(12)	(22)	10
<b><u>Maintenance Expenses</u></b>			
<b>(D) Salaries &amp; Wages</b>			
4 To annualize operators' salaries for the test year.			
Per ORS	19,080	1,746	17,334
Per UUCI	18,356	5,617	12,739
<b>(E) Purchased Power</b>			
5 ORS and Company propose to update purchase power costs.			
Per ORS	2	91	(89)
Per UUCI	2	91	(89)

United Utility Companies, Inc.  
Docket No. 2013-199-WS  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended December 31, 2012

Audit Exhibit HNW-4  
2 of 7

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b>(F) Purchased Sewer &amp; Water</b>			
6 ORS proposed to remove cost not associated with UUCI.			
Per ORS	(79)	0	(79)
Per UUCI	0	0	0
<b>(G) Maintenance and Repair</b>			
7 To increase maintenance and repair expenses for items improperly capitalized, and decrease for allocation corrections .			
Per ORS	27,177	(5,440)	32,617
Per UUCI	0	0	0
<b>(H) Chemicals</b>			
8 ORS propose to remove undocumented expenses.			
Per ORS	(930)	(85)	(845)
Per UUCI	50	94	(44)
<b>(I) Transportation</b>			
9 To adjust for allocated transportation expense including fuel and auto repairs. ORS does not propose to adjust for inflation.			
Per ORS	12,083	1,018	11,065
Per UUCI	14,949	1,296	13,653
<b>(J) Operating Expenses Charged to Plant</b>			
10 To adjust operating expense charged to plant (capitalized time) for actual salary expenses and associated taxes and benefits.			
Per ORS	(34,237)	(3,133)	(31,104)
Per UUCI	2,913	(5,532)	8,445
<b><u>General Expenses</u></b>			
<b>(K) Salaries &amp; Wages</b>			
11 To annualize office salaries for the test year.			
Per ORS	29,470	2,697	26,773
Per UUCI	(131)	429	(560)

United Utility Companies, Inc.  
Docket No. 2013-199-WS  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended December 31, 2012

Audit Exhibit HN-4  
3 of 7

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b>(L) Office Supplies &amp; Other Office Expense</b>			
12 To remove non-allowable fines and other items.			
Per ORS	(26,706)	(225)	(26,481)
Per UUCI	(20,800)	0	(20,800)
<b>(M) Regulatory Commission Expense</b>			
13 To amortize rate case expenses over a five-year period.			
Per ORS	(16,970)	(1,553)	(15,417)
Per UUCI	53,388	4,881	48,507
<b>(N) Pension &amp; Other Benefits</b>			
14 To annualize pension and other benefits associated with the adjusted test year salaries.			
Per ORS	26,746	2,447	24,299
Per UUCI	22,402	3,027	19,375
<b>(O) Miscellaneous</b>			
15 To remove non-allowable expenses.			
Per ORS	(82)	(6)	(76)
Per UUCI	4,454	343	4,111
16 To remove non-allowable G&A expenses			
Per ORS	(8,016)	(734)	(7,282)
Per UUCI	0	0	0
Total Per ORS	(8,098)	(740)	(7,358)
Total Per UUCI	4,454	343	4,111
<b>(P) Depreciation Expense</b>			
17 To annualize depreciation expense for known and measurable plant in service.			
Per ORS	90	604	(514)
Per UUCI	7,670	1,193	6,476

United Utility Companies, Inc.  
Docket No. 2013-199-WS  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended December 31, 2012

Audit Exhibit HNW-4  
4 of 7

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b>(Q) Amortization of Contributions in Aid of Construction (CIAC)</b>			
18 To annualize the amortization of CIAC expense.			
Per ORS	(96)	0	(96)
Per UUCI	(96)	0	(96)
<b>(R) Taxes Other Than Income</b>			
19 To adjust payroll taxes associated with the adjusted test year salaries.			
Per ORS	13,501	1,235	12,266
Per UUCI	13,253	1,645	11,608
20 To adjust gross receipts and utility/commission taxes after the accounting and pro forma adjustments using a factor of .00963081 (.003 for SCDOR and .00663081 for PSC/ORS ).			
Per ORS	4,813	177	4,636
Per UUCI	5	12	(7)
Total Per ORS	18,314	1,412	16,902
Total Per UUCI	13,258	1,657	11,601
<b>(S) Income Taxes</b>			
21 To adjust state and federal income taxes after accounting and pro forma adjustments. See Audit Exhibit HNW-6.			
Per ORS	27,133	(4,269)	31,402
Per UUCI	(52,745)	(9,004)	(43,741)
<b>(T) Interest During Construction (IDC)</b>			
22 To eliminate IDC for rate making purposes. Construction work in progress was not included in rate base; therefore, IDC is eliminated as an addition to net income.			
Per ORS	6	1	5
Per UUCI	6	1	5

**United Utility Companies, Inc.**  
**Docket No. 2013-199-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2012**

**Audit Exhibit HN-4**  
**5 of 7**

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b>(U) Customer Growth</b>			
23 To adjust for customer growth after the accounting and pro forma adjustments. The growth factor of 16.70047% for wastewater was computed by the Water and Wastewater Department.			
Per ORS	18,977	0	18,977
Per UUCI	0	0	0
<b>(V) Gross Plant in Service</b>			
24 To adjust gross plant in service for net additions ( including vehicles) documented as of December 31, 2012.			
Per ORS	(169,766)	(24,661)	(145,105)
Per UUCI	52,966	4,532	48,434
25 To adjust gross plant in service for net G/L additions occurring after the test year.			
Per ORS	109,649	51,843	57,806
Per UUCI	82,594	34,943	47,650
Total Per ORS	(60,117)	27,182	(87,299)
Total Per UUCI	135,560	39,475	96,084
<b>(W) Accumulated Depreciation</b>			
26 To reduce accumulated depreciation for plant adjustments and depreciation for vehicles, computers, and general plant.			
Per ORS	38,786	2,510	36,276
Per UUCI	(39,379)	(4,050)	(35,329)
<b>(X) Cash Working Capital</b>			
27 To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit HN-7.			
Per ORS	3,443	(397)	3,840
Per UUCI	12,243	1,296	10,947
<b>(Y) Contributions in Aid of Construction (CIAC)</b>			
28 To adjust CIAC to reflect the amortization of CIAC expense as a result of ORS Adjustment 25.			
Per ORS	96	0	96
Per UUCI	0	0	0

United Utility Companies, Inc.  
Docket No. 2013-199-WS  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended December 31, 2012

Audit Exhibit HN-4  
6 of 7

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b>(Z) Interest Expense</b>			
29 To adjust interest on debt using a 52.44% and 47.56% debt to equity ratio and 6.58% cost of debt. ORS computed allowable interest expense after accounting and pro forma adjustments. See Audit Exhibit CAS-8.			
Per ORS	(25,066)	(3,706)	(21,360)
Per UUCI	(20,326)	(3,421)	(16,906)
<b><u>Proposed Increase</u></b>			
<b>(AA) Service Revenues</b>			
30 To adjust water and sewer service revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	555,116	27,481	527,635
Per UUCI	472,577	25,387	447,190
<b>(BB) Miscellaneous Revenues</b>			
31 To adjust miscellaneous revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	21,755	6,028	15,727
Per UUCI	0	0	0
<b>(CC) Uncollectible Accounts</b>			
32 To adjust for uncollectible accounts associated with the Company's proposed rate increase.			
Per ORS	(7,983)	(396)	(7,587)
Per UUCI	(6,687)	(440)	(6,247)
<b>(DD) Miscellaneous</b>			
33 To include a Leak Mitigation Fund in cost of service, and other.			
Per ORS	0	0	0
Per UUCI	2,363	127	2,236

**United Utility Companies, Inc.**  
**Docket No. 2013-199-WS**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2012**

**Audit Exhibit HN-4**  
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Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<b>(EE) Taxes Other Than Income</b>			
34 To adjust gross receipts and utility/commission taxes after the accounting and pro forma adjustments using a factor of .00963081 (.003 for SCDOR and .00663081 for PSC/ORS ).			
Per ORS	5,479	319	5,160
Per UUCI	4,421	238	4,184
<b>(FF) Income Taxes</b>			
35 To adjust state and federal income taxes associated with the Company's proposed increase. See Audit Exhibit HN-6.			
Per ORS	187,333	10,904	176,429
Per UUCI	175,608	9,403	166,205
<b>(GG) Customer Growth</b>			
36 To adjust customer growth associated with the Company's proposed increase. The growth factor of 16.70047% for wastewater was provided by the Water and Wastewater Department.			
Per ORS	59,151	0	59,151
Per UUCI	0	0	0



**United Utility Companies, Inc.**  
**Depreciation and Amortization Adjustments**  
**Docket No. 2013-199-WS**  
**For the Test Year Ended December 31, 2012**

	<u>Combined Operations</u> \$	<u>Water Operations</u> \$	<u>Sewer Operations</u> \$
<b><u>Depreciation Adjustment</u></b>			
Gross Plant @ 12/31/12	6,210,153	535,763	5,674,390
Add:			
Net Plant Additions Adjustment @ 12/31/12	(60,117)	27,182	(87,299)
Less:			
Organization @ 12/31/12	(20,349)	(6,000)	(14,349)
Land @ 12/31/12	(17,825)	(2,538)	(15,287)
Vehicles @ 12/31/12	(87,690)	(7,599)	(80,091)
Computers @ 12/31/12	(94,988)	(8,687)	(86,301)
<b><u>Net Plant</u></b>	<b>5,929,184</b>	<b>538,121</b>	<b>5,391,063</b>
Plant Depreciation @ 1.5% (66.67 years)	<u>88,938</u>	<u>8,072</u>	<u>80,866</u>
<b><u>Vehicles @ 12/31/12</u></b>	<b>87,690</b>	<b>7,599</b>	<b>80,091</b>
Less: Fully Depreciated Vehicles	(30,060)	(2,448)	(27,612)
Net vehicles @ 12/31/12	<u>57,630</u>	<u>5,151</u>	<u>52,479</u>
Vehicle Depreciation @ 16.67% (6 years)	<u>9,607</u>	<u>859</u>	<u>8,748</u>
<b><u>Computers @ 12/31/12</u></b>	<b>94,988</b>	<b>8,687</b>	<b>86,301</b>
Less: Fully Depreciated Computers	0	0	0
	<u>94,988</u>	<u>8,687</u>	<u>86,301</u>
Computer Depreciation @ 12.5% (8 years)	<u>11,874</u>	<u>1,086</u>	<u>10,788</u>
<b>Total Depreciation</b>	<b><u>110,419</u></b>	<b><u>10,017</u></b>	<b><u>100,402</u></b>
Less: Per Books Depreciation	<u>110,329</u>	<u>9,413</u>	<u>100,916</u>
<b>ORS Adjustment # 17</b>	<b><u>90</u></b>	<b><u>604</u></b>	<b><u>(514)</u></b>
Company's Adjustment	<u>7,670</u>	<u>1,193</u>	<u>6,476</u>
<b><u>Amortization of CIAC Adjustment</u></b>			
Gross CIAC @ 12/31/12	(2,716,360)	(281,028)	(2,435,332)
CIAC Amortization @ 1.5% (66.67 years)	(40,745)	(4,216)	(36,529)
Less: Per Books Amortization of CIAC	(40,649)	(4,216)	(36,433)
<b>ORS Adjustment # 18</b>	<b><u>(96)</u></b>	<b><u>(0)</u></b>	<b><u>(96)</u></b>
Company's Adjustment	<u>(96)</u>	<u>0</u>	<u>(96)</u>

United Utility Companies, Inc.  
Docket No. 2013-199-WS  
Computation of Income Taxes  
For the Test Year Ended December 31, 2012

After Accounting & Pro Forma Adjustments

	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	1,011,930	65,207	946,723
Operating Expenses	<u>895,584</u>	<u>73,625</u>	<u>821,959</u>
Net Operating Income Before Taxes	116,346	(8,418)	124,764
Less: Annualized Interest Expense	<u>103,735</u>	<u>8,079</u>	<u>95,656</u>
Taxable Income - State	12,611	(16,497)	29,108
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	630	(825)	1,455
Less: State Income Taxes Per Book	<u>5,758</u>	<u>527</u>	<u>5,231</u>
Adjustment to State Income Taxes	<u>(5,128)</u>	<u>(1,352)</u>	<u>(3,776)</u>
Taxable Income - Federal	11,981	(15,672)	27,653
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	4,194	(5,485)	9,679
Less: Federal Income Taxes Per Book	<u>(28,067)</u>	<u>(2,568)</u>	<u>(25,499)</u>
Adjustment to Federal Income Taxes	<u>32,261</u>	<u>(2,917)</u>	<u>35,178</u>
Total Adjustment to Income Taxes	<u>27,133</u>	<u>(4,269)</u>	<u>31,402</u>

After Applicant's Proposed Increase

	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	1,580,818	98,320	1,482,498
Operating Expenses	<u>901,063</u>	<u>73,944</u>	<u>827,119</u>
Net Operating Income Before Taxes	679,755	24,376	655,379
Less: Annualized Interest Expense	<u>103,735</u>	<u>8,079</u>	<u>95,656</u>
Taxable Income - State	576,020	16,297	559,723
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	28,801	815	27,986
Less: State Income Taxes As Adjusted	<u>630</u>	<u>(825)</u>	<u>1,455</u>
Adjustment to State Income Taxes	<u>28,171</u>	<u>1,640</u>	<u>26,531</u>
Taxable Income - Federal	547,219	15,482	531,737
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	191,527	5,419	186,108
Less: Federal Income Taxes As Adjusted	<u>4,194</u>	<u>(5,485)</u>	<u>9,679</u>
Adjustment to Federal Income Taxes	<u>187,333</u>	<u>10,904</u>	<u>176,429</u>
Total Adjustment to Income Taxes	<u>215,504</u>	<u>12,544</u>	<u>202,960</u>

**United Utility Companies, Inc.**  
**Docket No. 2013-199-WS**  
**Cash Working Capital Allowance**  
**For the Test Year Ended December 31, 2012**

<u>After Accounting &amp; Pro Forma Adjustments</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
Maintenance Expenses	512,684	39,110	473,574
General Expenses	<u>169,199</u>	<u>15,799</u>	<u>153,400</u>
Total Expenses for Computation	681,883	54,909	626,974
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital	85,236	6,864	78,372
Cash Working Capital - Application Per Books	<u>81,793</u>	<u>7,261</u>	<u>74,532</u>
Cash Working Capital Adjustment - ORS Accounting & Pro Forma Adjustment	<u>3,443</u>	<u>(397)</u>	<u>3,840</u>
Cash Working Capital Adjustment - UUCI	<u>12,243</u>	<u>1,296</u>	<u>10,947</u>

United Utility Companies, Inc.  
Docket No. 2013-199-WS  
Return on Equity  
Capital Structure at December 31, 2012

Combined Operations

Description	(Note) Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments			After Applicant's Proposed Increase		
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	52.44%	6.58%	3.45%	\$ 180,000,000	52.44%	6.58%	\$ 180,000,000	52.44%	6.58%
Members' Equity	163,255,970	47.56%	-3.75%	-1.79%	163,255,970	47.56%	-3.75%	163,255,970	47.56%	-1.79%
Totals	\$ 343,255,970	100.00%	1.66%		\$ 343,255,970	100.00%	1.66%	\$ 343,255,970	100.00%	1.66%

Water Operations

Description	Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments			After Applicant's Proposed Increase		
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	52.44%	6.58%	3.45%	\$ 180,000,000	52.44%	6.58%	\$ 180,000,000	52.44%	6.58%
Members' Equity	163,255,970	47.56%	-14.04%	-6.68%	163,255,970	47.56%	-14.04%	163,255,970	47.56%	-6.68%
Totals	\$ 343,255,970	100.00%	-3.23%		\$ 343,255,970	100.00%	-3.23%	\$ 343,255,970	100.00%	-3.23%

Sewer Operations

Description	Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments			After Applicant's Proposed Increase		
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	52.44%	6.58%	3.45%	\$ 180,000,000	52.44%	6.58%	\$ 180,000,000	52.44%	6.58%
Members' Equity	163,255,970	47.56%	-3.00%	-1.43%	163,255,970	47.56%	-3.00%	163,255,970	47.56%	-1.43%
Totals	\$ 343,255,970	100.00%	2.02%		\$ 343,255,970	100.00%	2.02%	\$ 343,255,970	100.00%	2.02%

Audit Exhibit HNW-8

Note: ORS used the capital structure of the parent company, Utilities, Inc.

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2013-199-WS**

IN RE:    Application of United Utility Companies,    )  
          Incorporated for Adjustment of Rates and    ) **CERTIFICATE OF**  
          Charges    ) **SERVICE**

This is to certify that I, Faith E. Shehane, have this date served one (1) copy of the **DIRECT TESTIMONY & EXHIBITS OF DAWN M. HIPP, DOUGLAS H. CARLISLE, AND HENRY N. WEBSTER** in the above-referenced matter to the person(s) named below by causing said copy to be electronically mailed as shown below:

United Utility Companies, Incorporated  
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and  
Scott Elliott, Esquire

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Faith E. Shehane

September 30, 2013  
Columbia, South Carolina